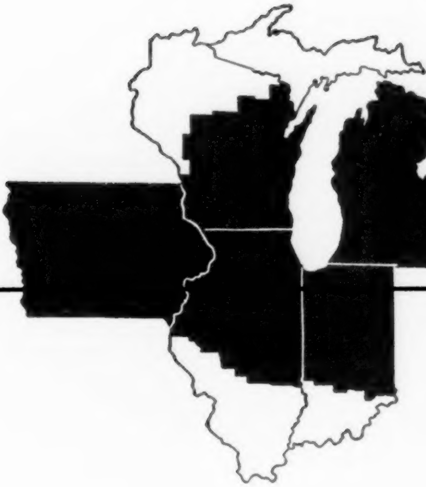
A *review by the* **Federal Reserve Bank of Chicago**

Business Conditions



1955 July

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THE Trend OF BUSINESS

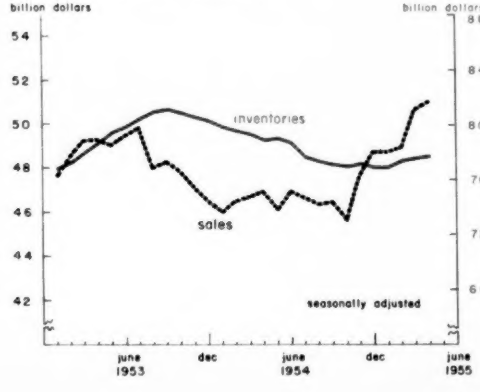
The first half of 1955 has been marked by broad and continuous expansion in business activity. Well below previous peaks at year-end, most measures are now pushing into new high ground. Industrial production has gained more than 6 per cent since the end of 1954, and total national output of goods and services has been running close to a 375 billion dollar annual rate in the spring quarter, more than 5 per cent above last summer's low.

Earlier concern that more than seasonal declines in some major lines—notably automobiles and new housing—might lead to general weakness in business later this year has waned. For one thing, both industries have continued to do very well into the spring. Preliminary reports indicate that around 700,000 new cars were sold in May for the third straight month. Inventories of franchised dealers leveled off during the month, following substantial gains earlier in the year, and amount to only one month's supply at the current retail volume. Thus, even if sales fall off somewhat during the summer, the probable overhang of inventory at model change-over time does not seem so formidable as was anticipated earlier. Housing starts, at a 1.3 million seasonally adjusted annual rate in April and May, were only moderately below the first-quarter high. There is some indication that new starts may taper off somewhat further in the months ahead. Even so, however, the volume of work already under way virtually assures a high level of expenditures for some time to come.

Business outlays for new plant and equipment, moreover, are expected to provide additional support for current levels of activity, after lagging behind in the initial stages of the recovery. A recent SEC—Commerce Department resurvey of business intentions to invest indicates that plans for the second and third quarters of this year have been boosted considerably. Plans now call for third-quarter outlays at a seasonally adjusted annual rate more than 10 per cent higher than in the first quarter and equal to the 1953 peak. Virtually all business categories expect to participate in this gain, with public utilities showing the largest rise—20 per cent. Output of durable producers' equipment, such as industrial machinery, electrical apparatus and trucks, has shown considerable recovery recently (see chart). Further improvement may be expected if present business investment plans are carried out.

After a relatively slow start, employment also has responded to the improving level of business. Nonfarm employment rose 300,000 from mid-April to mid-May, after adjustment for

Business sales up sharply, but not much inventory rebuilding has yet taken place



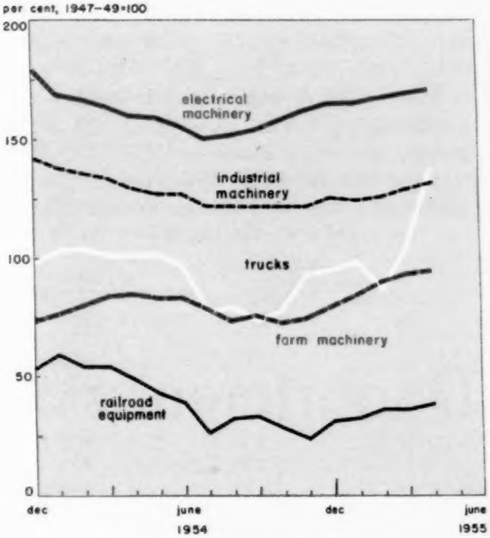
seasonal variation, with the gain about evenly divided between manufacturing and other business lines. Since last summer's low, employment has recovered by nearly 1.2 million; nevertheless, the May total of 49.2 million still falls 800,000 short of the peak month in 1953. Reflecting longer hours and higher wage rates, as well as greater employment, wage and salary income has climbed steadily since September and in April was 4 per cent higher than a year earlier.

The immediate prospects for business have also been clarified as a result of the Ford and General Motors wage settlements. Total cost of the contracts is reported by the union to be 20 cents per hour, an increase of 8-9 per cent in the companies' direct labor cost. In cents per hour, this is the largest increase ever granted by automobile producers; as a percentage boost, however, it is smaller than in the 1946 and 1950 agreements. Moreover, the three-year contracts limit further pay raises to annual productivity increases and "cost of living" adjustments through mid-1958.

The most publicized feature of the agreements is the 5 cent payment to be made to the new "guaranteed annual wage" fund, intended to supplement state unemployment compensation benefits beginning next year. In addition, the package includes an immediate "productivity" wage boost of 6 cents or 2½ per cent, an increase in pension fund benefits estimated to cost 4 cents, and other benefits and selective adjustments in wage rates. How fast and to what extent the increase will spread to other businesses is uncertain. Wage contracts in several major industries—steel, electrical equipment, farm machinery—will be up for negotiation later in the summer.

Business inventories have contributed little to the rising level of activity since the liquidation was halted late last year. Increases in recent months have been modest, averaging about 200 million dollars per month since the turn of the year, after allowance for seasonal changes. As a result, business stocks at the end of April were only 1 per cent above last year's low, while total sales had climbed 12 per cent in the same period. This contrast is especially marked for manufacturers, whose inventories have not changed since last October while sales have jumped by 3 billion dollars. It seems likely that many firms would prefer to increase inventories but have not been able to do so because of the rising volume of business. Thus, larger additions to stocks by business may provide an additional stimulus to over-all activity in the months ahead.

Output of producers' durable equipment rising in recent months



Retail sales, continuing the strong showing evidenced since late last fall, set new records in April and May. Seasonally adjusted sales in both months were in excess of 15.2 billion dollars, 8 per cent higher than in the same months of 1954. As in earlier months this year, automobile and accessory dealers' sales showed the largest gains—20 per cent—but sales of furniture and appliance stores, gasoline stations and general merchandise outlets were also up substantially—6 to 9 per cent—from the year-ago volume. Personal income after taxes is running considerably higher than in early 1954 but, in addition, the larger sales volume has been

financed in part through sharply increased consumer borrowing. As a result, consumer instalment debt increased more than 1 billion dollars from December through April, in contrast to a 750 million decline in the same months of 1954.

Soaring bank debits tend to confirm that most Midwest centers are sharing fully in the general business advance. Usually a fairly slow-moving measure of activity, charges against checking accounts in Seventh District metropolitan centers averaged 10 per cent more than in 1954 during the first five months of this year. May debits, moreover, exceeded the year-ago volume by 19 per cent. Among individual centers, the best showings have tended to be in places heavily concentrated in durable goods manufacturing, such as Detroit, Flint, Jackson and Fort Wayne. Lagging well behind the District average this year, on the other hand, have been such diverse places as Peoria, Lansing, Terre Haute and Sioux City.

Department stores boost hard goods sales

In step with the general pickup in business activity, retailers have sold a considerably larger volume of household durables during the first five months of 1955 than during the same period last year. Sales at retail furniture and appliance stores were 7 per cent higher than in early 1954. Such a gain is not especially startling in view of the fact that personal income after taxes is running significantly above a year ago, employment has been climbing, future job prospects are perceptibly brighter and residential building since last summer has been at a record level.

But such items as furniture, television sets, refrigerators, washers, dryers, sewing machines, carpets, linoleum and curtains are not sold only in specialty shops. They make up a substantial proportion of the sales of department stores. The year-to-year increase in department store sales of these items, collectively referred to as homefurnishings, amounted to 11 per cent in the first four months of this year, and preliminary reports for May indicate that the increase for the first five months will be as large. This gain is half again as great as that reported by furniture and appliance stores.

The obvious implication is that department stores have shared more than proportionately in the increased volume of homefurnishings sales. And this is remarkable, for in recent years department stores have steadily lost business to the outlets specializing in furniture and appliances. Comparing 1954 volume with as recent a year as 1951, sales of furniture and appliance stores were *up* 6 per cent while homefurnishings sales of department stores were *down* 10 per cent. The emergence of discount houses, the reduction in product servicing required of hard goods dealers, the widespread practice of allowing sizable trade-ins on old appliances and the shift in buying to the suburbs and outlying city areas all have tended to favor specialty outlets at the expense of department stores.

In recent months, however, an increasing number of the "big stores" have changed their practices. Newspapers in many metropolitan areas have been filled with special promotions of hard goods lines, some department stores have opened warehouse branches or run special

warehouse sales, and a few have even announced, explicitly or implicitly, that they will compete price-wise with local specialty outlets on major homefurnishings items.

Signs of change

Although department stores typically display a wide range of merchandise, the apparel lines have traditionally received most of the emphasis as well as most of the advertising dollar, at least in the big independent stores. In 1953 and 1954, for example, 56 per cent of the nation's department store sales consisted of women's and misses' apparel and accessories and men's and boys' wear. Sales of homefurnishings amounted to only about 20 per cent of their total volume. The remaining quarter of department store volume comes from other merchandising departments, such as piece goods, small wares, toys and sporting equipment, as well as from restaurants and other service operations.

In recent months, many stores have devoted more advertising space and promotional attention to the major homefurnishings items. Aggregate department store figures, of course, conceal the spectacular gains in these lines enjoyed by some stores by merging them with lesser gains or actual losses in stores which have made no particular effort to push consumer durables. A distribution of the individual performances of Seventh District stores reporting sales by department reveals that changes for the first five months of 1955 from the same period in 1954 ranged from gains well in excess of 16 per cent to losses of as much as 12 per cent. But 81 per cent of reporting stores showed gains, and the greatest gains were registered in the sales of some of the largest stores. In more detail the distribution of gains or losses was as follows:

Percentage gain or loss in homefurnishings sales	Percentage of: total stores reporting	Percentage of: dollar volume sold
+16 or greater	10	30
+11 to +15	9	4
+ 6 to +10	59	52
+ 1 to + 5	3	1
0	2	1
− 1 to − 5	14	11
− 6 or lower	3	1

Among the homefurnishings lines, sales of major household appliances, such as washers, dryers and refrigerators, have shown the most spectacular gains. For the Seventh District as a whole, sales in the first five months of this year have changed from the same period last year as follows:

Furniture and bedding	+15%
Domestic floor coverings	+13
Major household appliances	+37
Housewares, including small appliances	+ 9
Radios, television, records, pianos, etc.	− 1
Total homefurnishings	+11

More competitive pricing is partially responsible for the better showing of department stores in recent months. For some time most stores have been prevented from reducing regular list prices by the various state "price maintenance" laws, which are most easily enforceable at the big outlets. Recent setbacks for the "fair trade" legislation, however, have added impetus to the change in department store merchandising policy regarding household durables.

The more aggressive merchandising of du-

During 1951-54 homefurnishings sales at department stores fell while sales at furniture and appliance stores rose

rables, if widely adopted, would mark the second major move by department stores to offset a steady postwar decline in their competitive position. The first and continuing phase has been the establishment of suburban branches by central city firms—in order to move their counters and cash registers into the growing outlying areas that have enjoyed the lion's share of postwar population growth. In 1948 there were approximately 485 department stores in the Seventh District, of which 132 were located in the four major metropolitan areas—Chicago, Detroit, Indianapolis and Milwaukee. Since then about a dozen stores have gone out of business and about two dozen new units or branches of old firms have been established—virtually all in the outlying sections of metropolitan areas. In number the net increase is not large, but some of the new stores are branches of the largest old-line firms in Chicago and Detroit, and many new branches are now on the drawing boards or under construction.

While many of the earlier branches emphasized apparel even more than their parent stores, those opened recently have carried more extensive displays of consumer durables. If the aggressive merchandising policy in hard goods proves successful and profitable, homefurnishings departments may receive still more attention in the suburban outlets. Such a development would add still more momentum to the department stores' drive, already well under way, to further strengthen their importance as distributors of household durables.

Bull market in mergers

As in earlier periods of booming business and rising stock prices, business mergers are thriving. Last year almost 400 consolidations were noted in the financial press in the manufacturing and mining fields alone. This was triple the number recorded in 1949, and another increase may be in the making this year.

In June, the Federal Trade Commission issued a report analyzing the rising tide of business combinations. This publication followed on the heels of the bulky report of the Attorney General's Antitrust Committee. Additional materials are being prepared by two congressional committees which are surveying the movement.

Studies of the merger wave are intended to throw light upon certain vital questions: What is the nature of the current movement relative to the pattern of the past? To what extent, if any, has the concentration of economic power been promoted and competition impaired? What has been the effect upon economic growth and stability? More specifically, what new legislation, if any, is needed to halt consolidations deemed detrimental to public policy? Clear-cut answers to these questions have become increasingly difficult to formulate as the structure of modern business has grown more complex.

Maintaining competition

Discussions of the merger movement carry an emotional charge absent from many economic issues. This is because business combinations raise a potential threat to the small businessman and the competitive enterprise system—both cherished institutions.

The reasoning behind these fears is simple and has wide appeal. To the extent that competitive forces are weakened, the benefits that free enterprise provides in the form of more and better goods are reduced. To the extent that competition is displaced as the self-governing regulator, demands for less palatable alter-

natives such as Government regulation or public ownership are enhanced.

As a result, opposition to monopoly power in America has been, by and large, a bipartisan matter. American experience contrasts with that of other capitalistic nations, none of which have an "antitrust" tradition comparable in vigor to ours. In fact, the groups which formed the great European combines and cartels could usually look to their governments for friendly aid rather than critical scrutiny.

The big Clayton Act loophole which permitted asset purchase to circumvent prohibitions of control through stock ownership was closed in 1950. New legislation in the congressional hopper calls for notification of the intent to merge industrial firms before the deal is closed. It is also proposed to make banks subject to the 1950 amendment to the Clayton Act and to require advance approval for any bank merger by the appropriate Federal agency.

But competitive market conditions cannot be assured merely by vigorous attacks on the merger movement or even an injunction against all mergers. The promoters of many combinations argue reasonably that their projects will serve to increase effective competition even though the number of firms in the field is reduced. More important, since the early years of this century the tendency toward concentration of particular lines probably has owed less to amalgamations than to the increasing market share gained by the strongest competitors.

Where market concentration stems from "unfair" and uneconomic practices, the process can be checked by action of Government agencies. But in the absence of clear-cut abuses the dilemma of concentration resulting from vigorous competition remains. Surely it is paradoxical to attempt to "maintain competition" by warning principal producers in a given industry to compete less vigorously lest their market share pass a given percentage point.

A new pattern emerges

A long-run look at the trend of business combinations shows clearly that mergers flourish in times of rising business activity and are slowed drastically by recessions. Attempts to divide combination movements into "waves" usually set off the periods 1889-1906, the 1920's, and the years since 1940 as separate units of study. The first and last of these waves could be further subdivided at 1893 and 1949, when merger activity declined with business prosperity.

The pressures toward combination in these periods of prosperity have been so strong as to more than offset the deterrent effects of new or more stringent antitrust laws. The Sherman Act was passed in 1890, the Clayton Act in 1914 and the "anti-merger act" in 1950. In the years following each of these dates the pace of business combination accelerated.

In certain respects, therefore, the current movement follows the pattern of the past. However, recent experience differs greatly from that of earlier waves in several vital aspects. Most important, far from attempting to monopolize particular industries or product lines, promoters of a surprisingly large number of recent mergers have been motivated by a desire to diversify operations or complement present lines. Moreover, many of the combinations of

A glossary

Merger or consolidation—loosely, a transaction which brings the operations of independent firms under common management

Horizontal integration—a combination of facilities in the same activity →	Hilton Hotels' purchase of Hotel Statler Corporation
Vertical integration—a combination of facilities at different levels of activity →	Chrysler's purchase of Briggs Body Division
Conglomerate—a combination of facilities in unrelated lines →	Gillette's purchase of Toni Wave

firms producing similar products have appeared to be desperation measures designed to improve chances of survival rather than attempts to dominate sectors of industry.

The movement in perspective

The rapid rise in the number of mergers receiving press coverage has brought the figure to only one-third the number of the late Twenties, and this despite a substantial rise in the number of firms in existence. Comparable data are not available for the period 1890-1906, but it is probable that the number of mergers during those years averaged at least as high as in the recent period.

In addition, the dollar value of merged firms has been moderated by the fact that few new giants have been formed. By far the largest mergers have been Olin-Mathieson, involving over a half billion in assets, and the somewhat smaller organizations created by Studebaker-Packard and Nash-Hudson. After these comes the 200 million dollar Textron-American Woolen combination. The great bulk of transactions have involved the acquisition of firms or parts of firms which were tiny, relative to the bulk of the purchasing enterprise.

By way of contrast, the early years of the century saw the formation of a number of powerful organizations, such as U.S. Steel, which dominated their industries. These great mergers of 50 or 60 years ago were deliberate attempts to obtain all or a very large share of all output in a given line in order to "rationalize" the industry, reduce "destructive" competition and provide steadier production, prices and profits through market control.

Although two out of every five mergers tabulated by the FTC for the 18 months ending in mid-1954 were intended to increase capacity to serve an existing market, nothing remotely approaching monopoly control has been aimed at or achieved. The proportion of firms seeking to expand in this manner was largest in the smallest size class. Moreover, a substantial number of these acquisitions represented dairies, breweries and other food processing plants not located in centers already served by the acquirer.

Merger motives

Basically, the compelling reason for business expansion along the merger route or through other means is the quest for larger or more stable profits. Ways of achieving a more favorable earnings picture include larger scale operations, diversification, lengthening of product lines and the acquisition of better distribution channels. Most often a combination of reasons are set forth to account for a given transaction.

These advantages usually can be attained by new construction, but acquisition of a going concern or part of one often brings the desired result faster and more cheaply. Even when a considerable expansion of the acquisition is contemplated, it is desirable to have a nucleus of trained men and techniques in being.

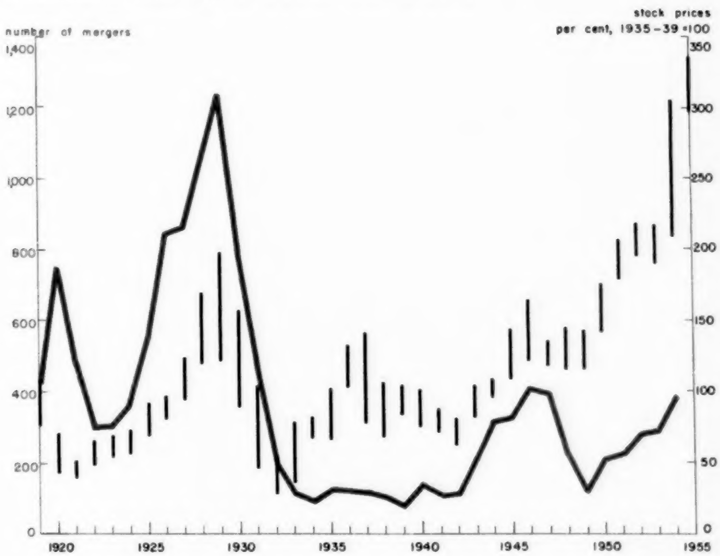
Many of the profit-making possibilities in expansion can be summed up under the heading of the economies of large-scale operation. The most obvious of these include the ability to buy goods in quantity, to distribute from points closer to markets, to tap the capital markets at low rates and to spread managerial and advertising costs over a larger volume.

Two factors of increasing importance at the present time are research and automation. Chemical firms, for example, have desired to integrate expensive research operations and spread costs over as large a range of products as possible. In metal-working lines, particularly, continual increases in labor costs provide a principal reason for pushing mechanization to reduce man-hour input. These highly mechanized production lines are costly, and economical use requires long runs of identical products.

The quest for stability

One of the most striking characteristics of the current merger movement is the prevalence of combinations of firms in unrelated fields. Technological developments and favorable opportunities have led such concerns as DuPont, Allis-Chalmers and Armstrong Cork to-

Business mergers boom with stocks



ward wide diversification in past decades. But the deliberate search for independent enterprises so that eggs can be placed in several baskets is a relatively new development. Aggregations of this type have come to be known as "conglomerates."

Diversification by merger, in recent years, has been partly a matter of vigorous firms taking advantage of favorable profit-making opportunities in developing industries. But the process has been particularly appealing to those in industries which are subject to sharp cyclical swings, secular declines or encroaching foreign competition.

These combinations have produced some strange bedfellows under corporate tents. Examples are legion: Pullman Inc. controls a truck trailer producer and a construction firm as well as railroad car facilities; Commercial Credit Corp. owns a meat packing concern and a pipe fittings producer; Elgin Watch operates a division which makes trim parts for automobiles.

Many of these acquisitions were made possible by accumulations of cash resulting from huge profits of the War and early postwar periods, by a temporary slackening of regular operations during the War or through the sale of certain facilities. In a sense these conglomerate combinations have become investment trusts. Management uses cash to buy likely looking firms rather than distribute extra or liquidating dividends.

Obviously, many of the economies of scale are absent in conglomerate combinations because diverse activities are conducted by semi-independent divisions. Certain administrative costs can still be spread over the entire operation, but savings in production and distribution are limited.

Diversification can alter completely the character of an established business firm. In some cases, a change in name confirms the metamorphosis. The Pressed Steel Car Co., for example, no longer makes freight cars, but rather a variety of metal products ranging from oil well equipment to trash cans. Result: The name of the firm is now U.S. Industries, Inc.

Other motives

Considerable emphasis in recent years has been placed upon the desirability of manufacturers being able to provide dealers with a "full line" of appliances, farm machinery, shoes and so forth. Another important merger motive in earlier postwar years and still present to a degree is the desire to acquire sources of supply for items which may be short during periods of high demand.

Business decisions such as those relating to mergers are not always matters of cold dollar

and cents calculations. The personal factor plays a vital role. Business executives are human beings and some enjoy participating in big deals. Personal power and prestige can play as large a role as profits or executive compensation.

Some organizations are in the business of suggesting and promoting mergers. The business consulting firms which mushroomed in the postwar years have been active in this work, and officials of some commercial banks have played a part. Investment banker influence, although less pervasive than in earlier decades, has not been absent.

Business on the block

So far we have been discussing merger motives from the standpoint of acquiring firms. But to complete a transaction, a willing seller is also needed. A high proportion of the firms acquired recently have been relatively small, closely-owned enterprises. In many cases, perhaps a majority, these firms have taken the initiative in merger transactions.

The factor most commonly mentioned in connection with the desire to sell out is the managerial problem. In small firms the lack of talent and desire to manage on the part of younger men may create difficulties when it is necessary to replace the older hands wishing to pull out because of advancing age, illness or a simple desire to take it easy.

In some merger cases a small firm's success in earlier postwar years was fading or its owners believed that the period of peak profitability had passed. Others, seeing the need for expansion to keep abreast of competition found that their ability to finance this growth was hampered by inability to tap the capital markets at reasonable cost and by high corporate taxes on retained earnings.

Tax considerations

Owners of closely held firms sometimes fear a lack of liquid resources to meet estate taxes. Others are concerned that the enterprise will be overvalued for estate purposes if no ready market quotations are possible. Sale to a larger firm has provided a way out. This matter has been mitigated by the provision of the 1950 revenue act which exempts dividends from income taxation if paid out to meet estate taxes.

Even if death taxes are not an immediate consideration, the owners of small firms may wish to extract past earnings through the payment of a capital gains tax of 26 per cent rather than the high bracket rates levied on personal income. In a relatively few cases mergers have been arranged to prevent the imposition of the Section 102 penalty tax on undistributed corporate earnings.

Manufacturing heads merger list

With one notable exception, all lines of American business have been participating in the merger movement to some degree. Since the passage of the Holding Company Act of 1936, the consolidation trend of the 1920's in the utility field has shifted into reverse. Parent companies, after administrative rulings, have been disgorging the stockholdings of subsidiary firms.

Some combinations have taken place in the railroad, airline and trade categories, but the number and magnitude of these transactions has not been great. More noteworthy developments have occurred in the hotel business, where Hilton and Sheraton have been vying with one another in buying up long-established names, and in the financial field, where commercial bank link-ups have been numerous in certain parts of the country. Most interest, however, has been directed toward the manufacturing sector, particularly the automobile, construction machinery, chemical and textile lines.

Automobiles. Hundreds of independent firms produced finished passenger cars at one time or another during the past half century. For the most part these vanished names expired through competitive pressures rather than through the merger route. Many of these firms continued to produce parts or gravitated to nonautomotive lines. Recent developments have narrowed the independents to three.

Last year Hudson was absorbed by Nash,

and its principal operations shifted from Detroit to Milwaukee and Kenosha. The two "makes" are now turned out on the same assembly lines. The Studebaker-Packard combine has resulted in utilization of identical engines and other parts, but the principal operations have remained separate. One of the benefits claimed for this combination was the amalgamated dealer organization which would facilitate penetration of market areas not hitherto reached. The Kaiser-Willys merger was encouraged by the provision of the excess profits tax, now extinct, which enabled losses of one party to a combination to be offset against the other's profits. So far no important automobile parts manufacturers have been drawn into combinations except for the purchase of Briggs body facilities by Chrysler.

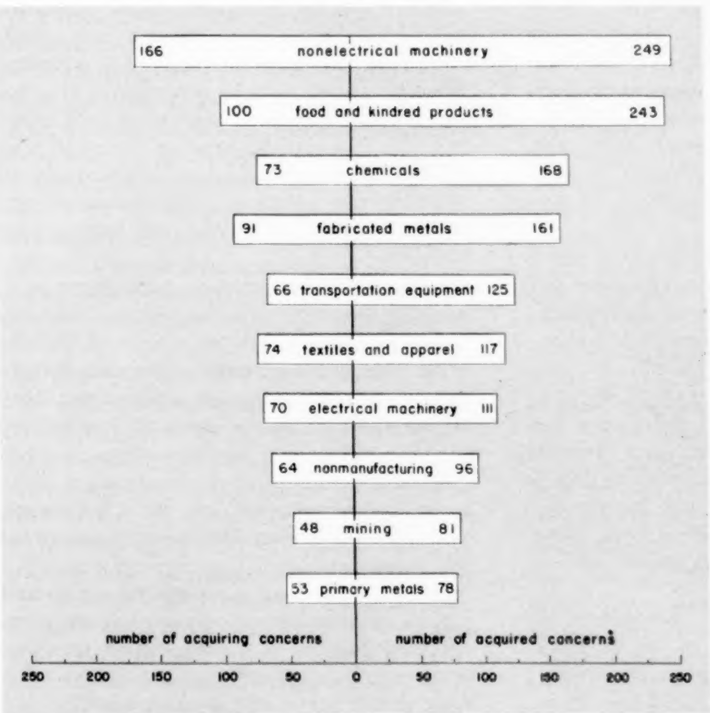
Construction machinery. Some of the largest firms in the road building machinery field, such as International-Harvester and Allis-Chalmers, have acquired a number of relatively small firms which had been producing needed parts or types of finished equipment not in the acquirer's line. General Motors and Westinghouse Air Brake entered this field by purchasing Euclid and LeTourneau. Caterpillar, the largest producer, also has expanded substantially but has done so almost exclusively through building new plants.

The expansion in road building which lies ahead provides only part of the interest in expanding investment in construction machinery. Foreign demand for the American product is important, and these products play a vital role in extractive industries such as lumbering, oil production and mining. The utilization of less accessible and poorer grade deposits of natural resources requires additional facilities for earth moving and off-highway haulage.

Steel. Possible combinations in the steel industry have been the subject of much speculation, but the Department of Justice and the FTC, up to this time, have taken exception to the more important proposals advanced. The managements of Bethlehem and Youngstown, for over a quarter century, have been disposed to combine their organizations, and negotiations to this end remain active.

Youngstown, the number six steel producer, has its primary facilities in Ohio and the Chicago area. Bethlehem, number two, is mainly an East Coast

Machinery firms lead merger parade, 1948-54



enterprise. Moreover, certain types of facilities such as Youngstown's seamless pipe mill are not duplicated by the other firm. So it is maintained that the merger would be "complementary" in nature and would intensify competition with U.S. Steel if the second largest firm became a major factor in the Chicago area which has not yet reached a point where it produces its own steel requirements.

But a union of Bethlehem and Youngstown would be the greatest industrial combination since the formation of the "Corporation" itself a half century ago. The deal would dwarf all previous postwar developments, since it would create a firm with 2.3 billion dollars in assets. It would be considerably smaller, however, than the U.S. Steel Corporation which has assets totaling about 3.3 billion dollars.

Dairy products. During the 1948-54 period Foremost Dairies alone accounted for 48 acquisitions, three times more than any other single firm. Borden also was active and figured in 17 deals during these years. Aside from financing and general administrative economies, the dairy mergers have been induced by the success in pushing nationalized advertising for branded merchandise. There has been little complaint recently that dairy mergers have set up local monopolies. Rather, expansion has been in new localities not formerly served.

Beer. The long-term trend from local brews to national brands plus intense competition has drastically reduced the number of independent breweries. More and more, beers sold nationally are being produced regionally to save transportation costs. The move of the Milwaukee and St. Louis brewers to the Coasts has been widely noted. In some cases existing breweries have been bought up, but in others it has been desirable to build new modern facilities rather than buy established firms, since the goodwill of local brands is usually written off.

Chemicals. Seventy-three producers of chemicals acquired 168 firms in the six years ending in 1954. Of all major industries, chemicals have witnessed the most rapid growth in the past decade, and it is not surprising that combinations to broaden product lines have been frequent.

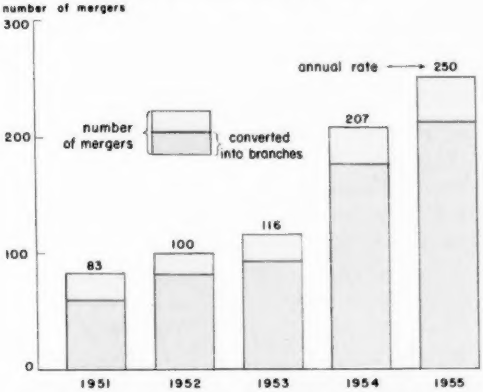
By far the most spectacular chemical merger has been the Olin-Mathieson consolidation consummated last year. A few years ago Mathieson was a rapidly growing producer of basic chemicals. In 1952 this firm absorbed Squibb, almost as large as itself, in order to integrate forward to the finished goods level and acquire a brand name with wide acceptance. Olin was a producer of finished or semifinished goods, such as cellophane and explosives. As a result of the combination, Olin and Squibb facilities now utilize Mathieson raw materials. This transaction created a firm with over a half billion in assets, huge by most standards, but only fifth in the industry ranking behind such giants as DuPont, Union Carbide, Dow and Allied Chemical.

Textiles. Over one hundred mergers have occurred in textiles in recent years, but the industry remains highly and, some would say, excessively competitive. Recently, the combination of Textron, Robbins and American Woolen created Textron American. To some extent these facilities complement each other, but it is also planned to scrap the more antiquated plants involved and to utilize American Woolen's cash resources in developing the synthetic lines which it is hoped will bring greater stability.

Retailing. Some mergers have occurred in retailing, but concentration in this field has owed more to internal expansion of existing firms. The great food chains, for example, have little to gain by buying out independents. Usually expansion takes the form of construction of large stores with ample parking space in new areas. Stores in operation are not likely to be deemed adequate, and there is little advantage to acquiring the business names of going concerns.

Independent grocery, hardware, drug and variety stores commonly do combine on a cooperative basis to pool their buying and gain from centralized advertising and advice. But these developments are of long standing and

Most banks absorbed through merger were converted into branches



are intended to enable individual merchants to compete with the chains and yet maintain their basic independence. Examples include the IGA food stores, Ben Franklin Stores, Ace Hardware and others.

The expansion of department store chains has been an outstanding feature of the post-war retailing picture. Two of the chains, Federated and Allied, have made a practice of buying existing stores and operating them under their old names. Changes in buying policy and merchandising practices are made, but the character of an independent enterprise which has a record of consumer acceptance is often retained. Other department store chains have expanded by construction of new facilities in shopping centers and other growth areas.

Bank mergers also spurt

News headlines have been made recently by marriages of some of the largest New York banks including the National City and First National, and the Chase National and the Manhattan Company. These spectacular cases are part of a sharp uptrend in commercial bank combines which became evident in 1952.

From the late Thirties until 1952 bank consolidations averaged 83 per year. In 1952 the number reached 100 and by 1954 it hit 207. Merger activity recorded during the first four months of 1955 indicates that the current year will witness another rise—perhaps to 250.

Despite the increase in recent years, bank consolidations are still few relative to the 1920's and early 30's. The peak year was 1931 when almost 800 absorptions took place. In this earlier period, however, most mergers were not simply intended to increase profitability but were instead "take overs" arranged to prevent forced liquidation.

Almost every major area in the U.S. has participated in the bank merger movement to some extent. However, combinations have been heavily concentrated in or around larger cities located in states where branch banking is widespread—Pennsylvania, New York, California and Oregon. Until 1955 when New York took the lead, Pennsylvania was consistently the leader in number of consolidations. Only two states in the Seventh District—Michigan and, to a lesser extent, Indiana—have witnessed any appreciable amount of merger activity. These are the only District states where the laws do not prohibit or drastically restrict branch banking.

Bank population—long-term decline

The present wave of bank consolidations constitutes an acceleration of a movement in evidence for more than thirty years. In 1921, after a rapid rise in the first two decades of the century, total bank population reached a peak of over 30,000 units—twice the current total. The great bulk of this decline occurred between 1921 and 1933. However, with the exception of three years following the close of World War II, consolidations in one form or another have exceeded the number of new banks established each year since 1934.

While the number of independent banks has been declining, the total number of banking facilities (including branches and "offices" offering limited services) has grown. Since the beginning of 1947, more than 2,300 branch offices have been established, either from scratch or converted through absorption. Branches now represent almost one-third of all banking offices.

The growth and importance of branch bank-

ing have provided a strong impetus to the merger movement. The great majority of banks absorbed through mergers have been converted into branch offices. Since 1951 about 30 per cent of the increase in branch offices has been through mergers.

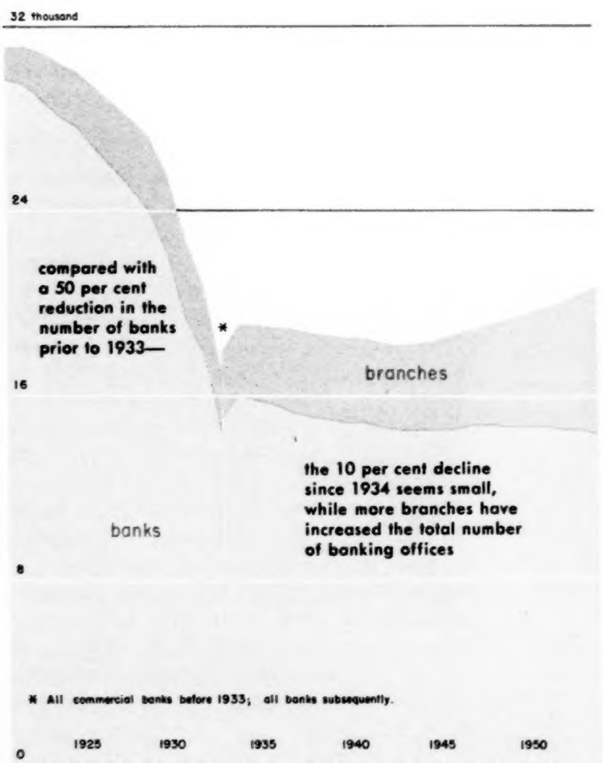
Why banks combine

Some of the same motives for combinations in business apply also to banking. Of course, there are many individual circumstances which enter into the decisions of any two banks to consolidate. In general, however, two factors stand out: (1) the desire to enlarge lending capacity and (2) the move to extend operations into the growing consumer and "retail banking" field.

To increase lending capacity, banks have needed additional capital. To attract savings deposits and checking accounts and to participate fully in the growth of consumer and mortgage credit, banks located in the heart of large cities have felt the need for offices in outlying locations.

Mergers have provided a convenient means of achieving these objectives. The combined capital of two or more banks has provided the means for accommodating bigger individual loans which are restricted legally to a certain proportion of capital and surplus. Conversion of a going bank with established consumer relationships into a branch usually involves less effort and expense than establishing a new branch.

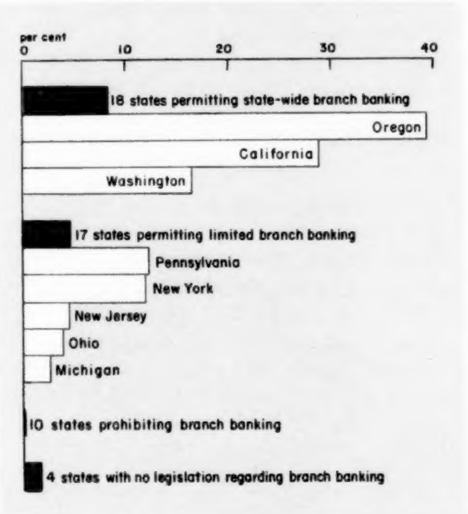
Until recently, market prices of many bank stocks were sufficiently below book value to make mergers especially attractive to stockholders on both sides of the transaction. Sellers received a better price for stock than was obtainable on the market, and buyers acquired going concerns for less than the cost of establishing a new branch. As the market prices of bank stocks rise, the incentive for merger diminishes.



Law—a limiting factor

Since one of the major purposes of mergers is the acquisition of branches, few combinations have taken place in states where branch banking is prohibited. In all, there are 18 states, including the District of Columbia, which permit statewide branch banking. Among these are California, Oregon and Washington. Seventeen states including New York, New Jersey, Pennsylvania, Indiana, Iowa and Michigan permit limited branch banking. Regulations in these states vary, but branches are usually confined to locations close to the main office, or to centers without adequate banking service.

The percentage of bank population merged since 1951 is greatest in areas permitting branch banking



Although included in the limited area category, Iowa permits only banking "offices" with very limited functions and tenure. Ten states, including Illinois and Wisconsin, completely prohibit the establishment of new branches.

Bank mergers and competition

Given a continuation of the present level of business activity, the influences sustaining the merger movement remain strong. Certain factors, however, such as the improved market prices of bank stocks, may tend to slow the pace. In addition, there is some chance that the trend toward more bank consolidations may be discouraged by restrictive legislation.

The banks which have disappeared through merger in the past four years represent but a small fraction of the total number of independent banks. But some of the largest banks in the country have been involved, and there are numerous instances where a large bank has absorbed several smaller institutions. Nevertheless, the Comptroller of the Currency, has expressed the belief that recent bank mergers have increased rather than reduced competition. He stated before the House Judiciary subcommittee that, "The most pertinent question which we must answer is whether a merger tends to lessen the availability of credit to worthy seekers of credit. We believe that the mergers which have occurred have not done so."

The wave rolls on

Like other complicated economic problems, the merger movement permits neither all-out approval or blanket condemnation. Judgments must be related to individual cases. Gains in stability and efficiency for the individual firm and for the economy as a whole must be weighed against considerations regarding competition and concentration and the desirability of promoting the health of growing enterprises.

Analysis of the magnitude and numbers of the recent mergers does not suggest an alarming trend either in terms of monopolization of particular market sectors or in concentration of economic power. Business population is near a record high, and the number of firms extinguished through merger is extremely small compared with the number entering and leaving the various fields each year for other reasons. There are no reliable figures on the total value of absorbed firms, but it is probably small relative to the over 200 billion dollars of assets of manufacturing and trade firms alone. The remarkable gains made by smaller firms in such growing fields as chemicals and television in recent years attest to the continuing competitive vigor of the economy.

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The brightening job picture

Employment opportunities have improved substantially in recent months and further betterment is in prospect. This conclusion was reached by the Bureau of Employment Security after analyzing reports submitted by local employment service offices throughout the nation.

Detroit and Milwaukee are among the cities which have had the greatest shrinkage in the number of jobless. Further improvement is expected in Chicago—shoes, steel and electrical goods—and Milwaukee—electrical machinery. Automotive cutbacks are expected to affect Detroit, Kenosha, South Bend and Saginaw particularly.

Steel and electrical equipment firms expect to expand employment further in the summer months. The construction and canning industries also foresee increases, but these are largely of a seasonal nature. Partial offsets to these gains are found in the expected declines in farm machinery and automobile employment.

In June, the BES instituted a new system of classifying individual labor markets according to the relative strength of local supply and demand for workers. The previous system, which designated areas as I, II, III or IV, was begun in 1951 in order to aid Government planning in connection with the sharp increase in defense output. Increasingly, these comparative differences between the areas have been found useful for private and local government planning as well as for Federal purposes.

Major labor market areas of approximately 100,000 population or more are now tagged by the letters A through F depending upon the adequacy of labor supply. The accompanying table sets forth the criteria used in classifying centers. It should be emphasized that ratings take into consideration the prospects two to four months hence as well as the current situation and that primarily seasonal or temporary influences are discounted. In addition, certain smaller centers are placed in a "substantial labor surplus" group which corresponds to groups D, E and F.

In June, no major labor market was classified in the A group. There were 28 in B, 86 in C, 19 in D, 8 in E and 8 in F. In the Seventh District the larger areas are classed as follows:

B—Flint, Lansing, Saginaw, Grand Rapids, Kalamazoo, Kenosha, Rockford, Cedar Rapids, Des Moines, Madison

C—Aurora, Chicago, Quad Cities, Joliet, Peoria, Fort Wayne, Indianapolis, Battle Creek, Detroit, Muskegon, Milwaukee, Racine

D—South Bend

E—Terre Haute

Smaller centers in the substantial surplus group include Michigan City, Muncie and Sioux City.

New system for classifying labor markets

Class		Unemployment	Needs for labor in 2-4 months
A	Critical labor shortage	less than 1.5%	Sizable gains
B	Slight excess of jobs	1.5-2.9%	Some increase
C	Slight excess of workers	3.0-5.9%	No increase
D	Excess of workers	6.0-8.9%	No increase
E	Considerable excess of workers	9.0-11.9%	Decline or no increase
F	Substantial excess of workers	12% or more	Decline or no increase